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ZNY CCCCC ZZH  
P 072007Z SEP 07  
FM AMEMBASSY CARACAS  
TO RUEHC/SECSTATE WASHDC PRIORITY 9664  
INFO RUEHQT/AMEMBASSY QUITO PRIORITY 2670

C O N F I D E N T I A L CARACAS 001773

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DEPARTMENT FOR WHA/AND (ACHACON)

E.O. 12958: DECL: 09/04/2017  
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SUBJECT: SCENESETTER FOR WHA/AND CHACON VISIT - SEPT 12-14

REF: CARACAS 001771

Classified By: POLITICAL COUNSELOR ROBERT DOWNES,  
REASONS 1.4 (B) AND (D)

¶1. (C) Embassy welcomes the September 12-14 visit of WHA/AND Director Arnold Chacon. Your visit comes on the heels of Ambassador Duddy's arrival at post on August 29 and after the June 11-15 visit of Special Coordinator for Venezuela McCarthy. Since winning re-election in December 2006, President Chavez is eight months into launching the "socialist" phase of his Bolivarian revolution. Chavez is currently focusing on changing 33 articles of the 1999 Constitution, including eliminating presidential term limits and weakening local governments. The National Assembly is expected to pass Chavez' proposals by November, setting the stage of a public referendum in early December. The opposition is divided on whether to mobilize against the changes or abstain.

¶2. (C) Chavez' radicalization of his government is less an ideological project than it is a systematic effort to concentrate even more power in his hands. Chavez enjoys sufficient popular support and political control to impose his ideas, but he is also exacerbating fissures within Chavismo and spurring greater civil society opposition. The Venezuelan president has bolstered his popularity with massive, but probably unsustainable, levels of government spending. USAID/OTI is supporting NGO efforts to generate genuine democratic discussion of Chavez' proposed constitutional changes.

¶3. (C) Chavez publicly accuses the USG of planning to invade Venezuela, to assassinate him, and overthrow his government, complicating prospects for real engagement with the Bolivarian Republic of Venezuela (BRV). Nevertheless, Vice Foreign Minister Jorge Valero tells us that he intends to begin a diplomatic dialogue with Ambassador Duddy on bilateral issues of common interest. We are seeking meetings for you with Vice Minister Valero and a prominent member of the National Assembly, Calixto Ortega, as well as with opposition and civil society leaders.

¶4. (C) Chavez efforts to forge a single pro-government party, the United Socialist Party of Venezuela (PSUV), have been hampered by organizational problems and internal divisions. PSUV organizers are concentrating on supporting constitutional change. Zulia Governor and former opposition presidential candidate Manuel Rosales has not been able to keep the opposition united post-election. Rosales' Un Nuevo Tiempo party and other opposition parties are engaged in long-term rebuilding efforts. University student protests in the wake of the government's closure of private broadcaster RCTV took the BRV by surprise, and students are planning to renew their activism this fall. The Catholic Church is also becoming more critical of the "Marxist-Leninist" drift of the

BRV (Reftel).

15. (SBU) Chavez is asserting considerably more state control of the economy. In addition to completing the nationalization of key "strategic sectors" which began early this year -- petroleum, electricity, and CANTV, the nation's backbone telecommunications company -- proposed draft constitutional amendments would further consolidate his vision for "21st Century Socialism." These proposals include new forms of collective property alongside private property, reinforcing the ban on monopolies and large land holdings, expanding sectors reserved to the state; establishing a 6 hour workday (not to exceed 36 hours per week), and removing the de jure autonomy of the Central Bank.

16. (SBU) Despite Chavez' anti-Americanism, the U.S.-Venezuela commercial relationship remains robust. Total bilateral trade in 2006 was USD 46 billion, with Venezuelan exports exceeding USD 37 billion and U.S. exports reaching USD 9 billion. U.S. exports to Venezuela could reach USD 12 billion this year. Approximately 57 percent of Venezuela's exports (mainly petroleum) go to the United States, and Venezuela receives 28 percent of its imports from the United States. Although Chavez would like to diversify away from the United States, the commercial relationship is a natural one, given geographic proximity and other factors. The oil windfall which has fueled massive government populist spending and very high GDP growth rates (10.3 pct in 2005 and 2006), has also contributed heavily to the current import boom.

17. (C) U.S. oil companies have invested over USD 10 billion in the hydrocarbon sector. Total Venezuelan crude production is estimated to be between 2.4-2.6 million barrels per day. Over 60 percent of Venezuelan oil exports go to the United States. Venezuelan oil exports represent around 11 percent of U.S. imports. The U.S. firms ConocoPhillips and ExxonMobil are currently negotiating compensation for assets taken following PDVSA's assumption of operational control on May 1 of their investments in the Faja. To date, there has been little or no progress on compensation, and the companies are prepared to take the issue to international arbitration if the matter is not resolved in the near future.

18. (C) There are some signs that Chavez' statist policies will eventually engender significant economic problems. Inflation will likely exceed 20 percent this year, rolling shortages of food staples are common, the parallel rate for dollars is over twice the official rate, oil production is stagnant, and not surprisingly there is little private sector investment given the uncertain business climate. At some point, even high oil prices may not be enough to keep up with Chavez' spending programs.

DUDDY